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INFO RUEHBO/AMEMBASSY BOGOTA 6671
RUEHCV/AMEMBASSY CARACAS 2555
RUEHLP/AMEMBASSY LA PAZ MAY LIMA 1669
RUEHGL/AMCONSUL GUAYAQUIL 2350

C O N F I D E N T I A L QUITO 001176

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TREASURY FOR S. GOOCH

E.O. 12958: DECL: 05/21/2017

TAGS: EFIN ECON PREL EC

SUBJECT: CENTRAL BANK MANAGER OFFERS RESIGNATION

REF: QUITO 999

Classified By: Classified by Ambassador Linda Jewell. Reason: 1.4 B and D.

¶1. (SBU) Summary. Central Bank General Manager Mauricio Pareja has offered to resign, but the Central Bank Board has yet to decide whether to accept his resignation. If it accepts his resignation, the Board will select his replacement. The rumor is that Maria de Lourdes Andrade, a close confidant of President Correa, is the front runner to replace him. End Summary

¶2. (C) Central Bank General Manager Mauricio Pareja told EconCouns and a visiting Treasury official on May 16 that on May 15 he submitted his letter of resignation to the Central Bank Board. He said that he is a "technician," implying that he was not prepared to deal any further with the political pressure that he is under. He said that he is not certain when he would depart and that it is up to the Board to decide whether to accept his offer to resign. In particular, he said, the Central Bank Board needs to determine whether the Central Bank would remain an autonomous technical agency.

¶3. (C) Pareja did not volunteer whether any particular issue led to his decision, but on May 15 the presidentally-appointed members of the Banking Board (Junta Bancaria, which is separate from the Central Bank Board) called for Pareja's resignation. The administration is also preparing draft legislation that, among other items, would remove the Central Bank General Manager from the Banking Board.

¶4. (U) The afternoon of May 16 the Central Bank released a statement confirming that Pareja had offered to resign and stating that the Central Bank Board would have to consider the matter.

Possible Replacement) Maria Andrade

¶5. (SBU) Even before Paraja's resignation offer was announced publicly, rumors spread in the business community that Maria de Lourdes Andrade would be selected to replace him.

¶6. (C) We did not discuss with Paraja whether Andrade would replace him, but did discuss her appointment to the Banking Board. Pareja was appalled with her appointment as the fifth member of the Banking Board (reftel), saying that her appointment to the position is illegal on two scores) 1) because she has a legal case pending against the Central Bank and 2) because the fifth member has to be supported by

consensus by the other four members of the Banking Board, and he was not present at the meeting when she was selected. Pareja also reaffirmed stories that Andrade started at the Central Bank as an aerobics instructor and subsequently became head of the Central Bank union, but had not held a technical position (she was released from the Central Bank in 2004 as part of a reduction in force).

¶17. (C) In a conversation later on May 16, Magdalena Barreiro, a former Minister of Economy, said that she had dismissed Maria de Lourdes Andrade from the Ministry of Economy. She called Andrade unscrupulous, but said that her story of wrongful dismissal from the Central Bank played well with Rafael Correa, who served as Minister of Economy before Barreiro and hired Andrade as a consultant. She said that when she became Minister, Correa's first request to her was that she retain Andrade. She did so, but dismissed Andrade when she learned Andrade was purporting to represent the Minister at a meeting at one of the government development banks. Noting Correa's disdain for the Central Bank, Barreiro said that appointing Andrade as General Manager of the Central Bank would be the ultimate measure he could take to humiliate the Central Bank.

¶18. (C) The Central Bank Board, if it accepts Pareja's resignation, would select his successor. Barreiro said that she does not know the Board members, and therefore could not speculate whether they would appoint Andrade to the position.

Rodrigo Espinosa, a senior official at the Superintendency of Banks, said that he believes that Pareja resigned under pressure from the Board. He also believes that the Board, if it were pressured by President Correa, would appoint Andrade as General Manager.

¶19. (C) Comment. If Pareja's offer to resign is accepted, and Maria Andrade or someone else close to President Correa replaces him, Correa will have gained a degree of control over an agency that he has soundly criticized and was viewed as operating independently of the administration. In a dollarized economy, the Central Bank has lost its primary role. But it does have a role in setting reference (i.e., maximum) interest rates, clearing payments, serving as the government's bank, monitoring economic conditions, and reviewing government debt, so greater control over the Central Bank would give the Correa administration additional flexibility in setting economic policy. But greater control might also remove a voice for economic moderation. Given Correa's disdain for the Central Bank, it almost certainly has not been closely consulted by the administration. However, Pareja and the Central Bank did advise the government about the complications of defaulting, which probably played a role in the government's decision to continue servicing external debt. Pareja and his team are also monitoring the economy for signs of economic vulnerability, which could be an important asset for a government committed to increasing spending with little heed to the consequences for medium-term economic stability.

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